

# Industry Research and Development Board



Australian Government

Department of Industry  
Tourism and Resources

AusIndustry

10 Binara Street  
Canberra City ACT 2601

GPO Box 9839  
Canberra ACT 2601 Australia

Phone: +61 2 6213 7400  
Facsimile: +61 2 6213 7677

Email: [ir&dboard@industry.gov.au](mailto:ir&dboard@industry.gov.au)  
Web: [www.ausindustry.gov.au](http://www.ausindustry.gov.au)

ABN: 51 835 430 479

Mr Mike Woods  
Commissioner  
Public Support for Science and Innovation Study  
Productivity Commission  
PO Box 80  
BELCONNEN ACT 2616

Dear Mr Woods

I write on behalf of the Industry Research and Development Board (the Board), to provide comment in relation to the Productivity Commission's recently released *Draft Report on Public Support for Science and Innovation*.

As a general comment, the Board is disappointed with the narrow focus adopted in the Draft Report. The Report fails to comprehensively analyse the full spectrum of activity in the Australian innovation system, focusing predominantly on basic science and research.

This letter responds to issues raised in the Draft Report of particular relevance to the Board's role in relation to support for business commercialisation and the administration of the R&D Tax Concession.

## ***Support for Commercialisation***

The Board rejects the Commission's assertion that public support for the commercialisation stages of innovation in both business and non-business sectors should be reconsidered. The Australian Government's *Backing Australia's Ability* package acknowledged that there is a valid role for Government in providing support to address barriers to commercialisation, including access to capital and development of entrepreneurial skills. Based on the Board's 20 years experience in administering the industry innovation programs, there remains an ongoing need for support to strengthen the capacity of Australian small and medium-sized businesses to take competitive ideas to market. This is based on their poor access to resources and knowledge asymmetries.

The Board rejects the Report's further assertion that in the case of business commercialisation, public support may currently be provided to firms who can undertake the innovation activity without such assistance. This view fails to take account of the assessment process used by the Board in administering competitive innovation support programs, which requires an assessment of the 'need for funding'. If a firm can undertake the R&D or associated activity in a competitive timeframe without government support, the application for funding assistance is rejected.

The assessment framework used by the Board incorporates a range of equally weighted merit criteria as outlined in our submission to the Commission. The 'commercial potential' of a project is given the same prominence in the assessment process, as the merit criterion concerned with assessing national benefits, including social, community and/or environmental benefits, likely to accrue from a project.

The Board's original submission to the Commission provided details of the range of national benefits which have accrued as a result of support provided under the industry innovation programs (Attachment 1). The Board draws the Commission's attention to this performance data which provides details of the impact of the industry innovation programs in terms of contributing to knowledge creation, human resource development and job creation and increased investment.

A broader example of this is the Australian Government's investment in the pharmaceuticals industry in Australia since 1988 through the Factor(f), Pharmaceutical Industry Investment Program (PIIP) between 1999 and 2004, and most recently through the Pharmaceuticals Partnerships Program (P<sup>3</sup>) which is administered through the Board. The results of these initiatives – all of which fund research and development with commercial potential – include:

- employment in the sector has risen from 10,000 to 36,000, including 15,000 in the manufacturing sector;
- turnover has risen from \$1 billion to \$14 billion including \$8 billion in the manufacturing sector;
- exports have risen from \$120 million to \$2.5 billion;
- investment in R&D by the industry has risen from \$ 15 million to over \$500 million

In brief, employment has risen by a factor of 3.6, turnover by a factor of 14, exports by a factor of 20, and R&D by a factor of 35.

The Board also notes the Productivity Commission's reference in the Draft Report to the possible advantages of introducing repayment or benefit sharing arrangements in competitive grant programs. From past experience, the Board would highlight the significant administrative overhead burdens associated with the management of such arrangements, both for companies and the government which would act as a disincentive for companies to access programs.

### ***R&D Tax Concession***

The Board is concerned that the Productivity Commission would suggest such radical changes to the R&D Tax Concession given that the new elements were only introduced in 2001. Because registration occurs after activity has taken place, only three years of data has been collected for the Tax Offset and 175% Premium and the Board considers this is not sufficient to gauge the effectiveness of the new elements.


Indeed, the first evaluation of the new elements is still underway, having commenced late 2005. The Board would expect some years of data would be required to determine the long term impact of the two measures and does not support a change to either element without such advice. Industry does regard the R&D Tax Concession as an incentive for expenditure on research largely because of the ability to plan and predict what support can be anticipated. To 'change horses' without adequate testing and analysis of the existing regime would be bad policy.

The Board supports the view that the R&D Tax Concession can assist in attracting foreign owned companies to undertake R&D in Australia. Indeed, in consultations on the new elements, some MNEs advised that the 175% Premium did impact on decision making about the location of their research. Thus the Board supports the finding in the draft report about relaxing the beneficial ownership requirement.

There was considerable discussion in the draft report about the need to assist start-up companies to access the 175% Premium R&D Tax Concession. Issues were raised about having a three year average of R&D to establish a base for identifying increases in R&D expenditure. The Board does support start-ups, particularly through the Tax Offset. That support is limited to companies with R&D expenditure of up to \$1 million and a turnover of up to \$5 million. The Board recommends that the final report focus on how the support provided by the Tax Offset might be able to be extended rather than focus on the 175% Premium three year average. The three year average would cut in after the start-up has accessed the R&D Tax Concession – indeed, any use of the R&D Start program or Commercial Ready can be used to establish the three year history.

The Board would also draw attention to its work on analysing and monitoring the use of the R&D Tax Concession. Indeed, Australia has one of the most used tax concessions in the world – possibly due to its long history (since 1985) and the simplicity of access and use. This contrasts starkly with other countries which have made constant changes (eg. USA), or which are relatively new (eg. UK and Ireland).

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Miles', with a large, stylized flourish on the left side.

David Miles  
Chairman

22 December 2006